

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Rochester Hills Public Library	County Oakland
Fiscal Year End December 31, 2007	Opinion Date February 28, 2008	Date Audit Report Submitted to State 3/8/2008	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

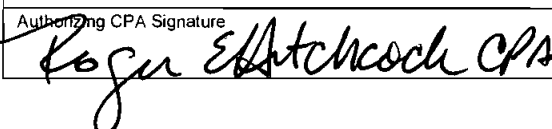
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X

☒ Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Andrews Hooper & Pavlik PLC		Telephone Number 248-340-6050	
Street Address 3201 University Drive Suite 350		City Auburn Hills	State MI
		Zip 48326	
Authorizing CPA Signature 	Printed Name Roger E. Hitchcock		License Number 1101014461

Audited Basic Financial Statements

Rochester Hills Public Library

Year Ended December 31, 2007  
With Report of Independent Auditors

Rochester Hills Public Library  
Audited Basic Financial Statements  
Year Ended December 31, 2007

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ANDREWS HOOPER & PAVLIK P.L.C.  
Certified Public Accountants

**Report of Independent Auditors**

The Board of Trustees  
Rochester Hills Public Library  
Rochester, Michigan 48307

We have audited the basic financial statements of the Rochester Hills Public Library (the Library) as of and for the year ended December 31, 2007, as listed in the table of contents. These basic financial statements are the responsibility of the Library's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Rochester Hills Public Library as of December 31, 2007, and the changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The required supplemental information is presented for the purpose of additional analysis and is not a required part of the basic financial statements of Rochester Hills Public Library. The information has been subjected to the procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The Library has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States of America have determined is necessary to supplement, although not required to be part of, the basic financial statements.

*Andrews Hooper & Pavlik P.L.C.*

Auburn Hills, Michigan  
February 28, 2008

Rochester Hills Public Library

Governmental Fund Balance Sheet / Statement of Net Assets

December 31, 2007

	General Fund Modified Accrual Basis	Adjustments	Statement of Net Assets
<b>Assets:</b>			
Cash and cash equivalents	\$ 1,339,305	\$ -	\$ 1,339,305
Investments - current	746,871	-	746,871
Investments - noncurrent	2,316,175	-	2,316,175
Other assets	59,968	-	59,968
Taxes receivable	1,902,725	-	1,902,725
Fixed assets	-	11,304,898	11,304,898
Total assets	<u>\$ 6,365,044</u>	<u>11,304,898</u>	<u>17,669,942</u>
<b>Liabilities:</b>			
Trade accounts payable	\$ 38,722	-	38,722
Deferred revenue	3,366,216	-	3,366,216
Accrued liabilities	105,470	-	105,470
Accumulated employee benefits-Due within one year	-	112,952	112,952
Accumulated employee benefits-Due in more than one year	-	80,244	80,244
Total liabilities	<u>3,510,408</u>	<u>193,196</u>	<u>3,703,604</u>
<b>Fund Balances and Net Assets:</b>			
Reserved for donor-restricted purposes	3,064	(3,064)	-
Unreserved:			
Designated for self-insurance plan	50,000	(50,000)	-
Designated for equipment purchases	800,000	(800,000)	-
Designated for capital improvements	930,000	(930,000)	-
Undesignated	1,071,572	(1,071,572)	-
Total fund balances	<u>2,854,636</u>	<u>(2,854,636)</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 6,365,044</u>		
Net Assets:			
Invested in capital assets, net of related debt		11,304,898	11,304,898
Restricted for donor-restricted purpose		3,064	3,064
Unrestricted		2,658,376	2,658,376
Total net assets		<u>\$ 13,966,338</u>	<u>\$ 13,966,338</u>

Rochester Hills Public Library

Statement of General Fund Revenues, Expenditures and  
Changes in Fund Balance / Statement of Activities

Year ended December 31, 2007

	General Fund Modified Accrual Basis	Adjustments	Statement of Activities
<b>Revenues:</b>			
Property taxes	\$ 2,792,407	\$ -	\$ 2,792,407
Service contracts	1,296,405	-	1,296,405
State aid	73,008	-	73,008
Fines and fees	346,487	-	346,487
Investment income	259,935	-	259,935
Grants	2,645	-	2,645
Gifts	157,507	-	157,507
Miscellaneous	26,995	-	26,995
Total revenues	<u>4,955,389</u>	<u>-</u>	<u>4,955,389</u>
<b>Expenditures:</b>			
Personnel	3,107,409	5,468	3,112,877
Library materials	699,710	(699,710)	-
Facilities and equipment	604,469	(36,436)	568,033
Professional and contractual services	86,737	-	86,737
Library programs	38,851	-	38,851
Other operating expenditures	211,220	1,140	212,360
Depreciation	-	1,261,166	1,261,166
Total expenditures	<u>4,748,396</u>	<u>531,628</u>	<u>5,280,024</u>
<b>Excess (deficiency) of revenues over expenditures and change in net assets</b>	206,993	(531,628)	(324,635)
<b>Fund balance/net assets - beginning of year</b>	<u>2,647,643</u>	<u>11,643,330</u>	<u>14,290,973</u>
<b>Fund balance/net assets - end of year</b>	<u>\$ 2,854,636</u>	<u>\$ 11,111,702</u>	<u>\$ 13,966,338</u>

# Rochester Hills Public Library

## Notes to the Basic Financial Statements

December 31, 2007

### **1. Summary of Significant Accounting Policies**

#### **Introduction**

The Rochester Hills Public Library (the Library) complies with accounting principles generally accepted in the United States of America as applicable to governmental units.

The significant accounting policies utilized by the Library are described below.

#### **Financial Reporting Entity**

The Rochester Hills Public Library (the Library) was formed under Public Act 164 of 1877. The Library functions as a separate financial operating entity from the City of Rochester Hills and is governed by a six-member board of trustees. The Library provides various services to the residents of Rochester, Rochester Hills and Oakland Township.

In evaluating how to define the Library for financial reporting purposes, management has considered all potential component units. The decision to include or not include a potential component unit in the reporting entity was made by applying the criteria set forth in the accounting principles generally accepted in the United States of America, currently GASB Statement No. 14, *The Financial Reporting Entity*.

Based upon the application of the criteria, the government-wide financial statements of the Library contain all the funds controlled by the Library's Board of Trustees as no other entity meets the criteria to be considered a blended component unit or a discretely presented component unit of the Library.

#### **Measurement Focus, Basis of Accounting and Financial Statement Presentation**

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the basic financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied. The accounting of the Library conforms to accounting principles generally accepted in the United States of America as applicable to governmental units.

The Library's basic financial statements include both government-wide (reporting the Library as a whole) and fund financial statements (reporting the Library's General Fund).

Notes to the Basic Financial Statements (continued)

**1. Summary of Significant Accounting Policies (continued)**

**Government-wide Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) are reported using the economic resources measurement focus and the accrual basis of accounting. Property taxes are recognized as revenue in the year in which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The statement of net assets includes and recognizes all long-term assets and receivables as well as long-term debt and obligations. The Library's net assets are reported in three components: invested in capital assets net of related debt; restricted net assets for donor-restricted purposes; and unrestricted net assets.

**Fund Financial Statements**

Governmental funds are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. With this focus, operating statements present increases and decreases in net current assets and unreserved fund balance as a measure of the available spendable resources. Governmental funds are used to account for all or most of the Library's general activities, including the collection and disbursement of earmarked resources.

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. Governmental funds and agency funds use the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they are both "measurable and available"). Revenue is considered available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. Property taxes, interest and special assessments are susceptible to accrual. Other revenues become measurable and available when cash is received by the Library and are recognized as revenue at that time. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. Expenditures are recorded when the related fund liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences and claims and judgments, are recorded only when payment is due.

The Library reports the following major governmental fund:

**General Fund**

This fund is used to account for all financial transactions not accounted for in another fund, including the general operating expenditures of the Library. Revenues are derived primarily from property taxes, state distributions, grants and other intergovernmental revenues.



## **1. Summary of Significant Accounting Policies (continued)**

### **Property Tax Revenue**

Property taxes are levied on each December 1 on the taxable valuation of property of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The Library's 2007 ad valorem tax is levied and collectible on December 1, 2006 and is recognized as revenue in the year ended December 31, 2007, when the proceeds of the levy are budgeted and available for the financing of operations. The Library's 2008 ad valorem tax is levied and collectible on December 1, 2007, but will not be recognized as revenue until 2008. As of December 31, 2007, the collections relating to the 2008 levy are recorded as deferred revenue.

The 2006 taxable valuation of the City of Rochester Hills totaled \$3.602 billion, on which ad valorem taxes levied consisted of 0.7823 mills for operating purposes. This resulted in approximately \$2.79 million for operations.

### **Service Contract Revenue**

The Library also services the City of Rochester and Oakland Township under separate operating agreements. The fee for this service is produced by each municipality levying one mill, annually adjusted for the Headlee Amendment.

### **Assets, Liabilities and Equity**

#### **Cash and Cash Equivalents**

The Library's cash and cash equivalents are considered to be cash on hand, demand deposits and all highly liquid investments purchased with a maturity of three months or less from the date of acquisition.

#### **Investments**

Investments are carried at fair value, based on quoted market prices.

#### **Prepaid Expenses**

Certain payments to vendors reflect costs applicable to the future fiscal year and are recorded as prepaid items under other assets in both government-wide and fund financial statements.

# Rochester Hills Public Library

## Notes to the Basic Financial Statements (continued)

### 1. Summary of Significant Accounting Policies (continued)

#### Capital Assets

Capital assets are defined by the Library as assets with an initial cost of more than \$2,500 and an estimated useful life in excess of two years. Such assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated property and equipment are valued at their estimated fair value on the date donated. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings and improvements	40 years
Furniture and fixtures	5-8 years
Library equipment	5-10 years
Bookmobile	10 years
Library materials	4 years

#### Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the fiscal year, all deferred revenue of the Library was unearned, relating entirely to property taxes and service contract revenue.

#### Compensated Absences

It is the Library's policy to permit employees to accumulate a limited amount of earned but unused vacation and sick pay benefits. Employees are paid their accumulated vacation and sick pay upon termination of employment. Accruals for these liabilities are recorded as earned by employees and reported in the government-wide financial statements.

#### Income Taxes

The Library is a governmental sub-unit organization and as such is not subject to federal income tax.

Rochester Hills Public Library

Notes to the Basic Financial Statements (continued)

**1. Summary of Significant Accounting Policies (continued)**

**Fund Equity**

In the fund financial statements, the unreserved fund balances represent the amount available for budgeting future operations. Designations of unreserved fund balances in governmental funds indicate tentative plans for use of financial resources in a future period.

**Use of Estimates**

The process of preparing basic financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the basic financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

**2. Cash and Cash Equivalent Deposits – Custodial Credit Risk**

Cash deposits and investments (certificates of deposit with maturities less than 90 days) are carried at cost. Cash deposits and certificates of deposit of the Library are in the name of the Library at various banks and investment companies.

At December 31, 2007, the Library had nine depository accounts. The Library does not have a deposit policy. The book value of the Library's bank deposits, consisting of four non-interest-bearing checking accounts was \$191,082 and five interest-bearing investment accounts was \$1,146,435. Of the bank balance, \$1,239,194 was covered by Federal Depository Insurance, and \$115,527 was uninsured and uncollateralized; therefore, subjecting the Library to custodial credit risk. Custodial credit risk is the risk that, in the event of a bank failure, the Library's deposits may not be returned. The Library does not have a deposit policy for custodial credit risk; however, the Library believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Library evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

<u>Depository Account</u>	<u>Bank Balance</u>
Insured (FDIC)	\$ 1,239,194
Uninsured and uncollateralized	<u>115,527</u>
Total	<u><u>\$ 1,354,721</u></u>

# Rochester Hills Public Library

## Notes to the Basic Financial Statements (continued)

### 3. Investments

At December 31, 2007, the Library had the following investments and maturities:

	Fair Market Value	Investment Maturities (in years)			
		Less than 1	1 –5	6 - 10	More than 10
Deposits:					
Certificates of deposit	\$ 958,600	\$ 663,072	\$ 295,528	\$ -	\$ -
Investments:					
U.S. Government securities	2,060,444	39,798	2,020,646	-	-
Mutual funds	197,719	197,719	-	-	-
Total investments	3,216,763	900,589	2,316,174	-	-
Less investments reported as cash and cash equivalents on The Statement of Net Assets	153,717				
Total investments	<u>\$ 3,063,046</u>				
As reported on the Statement of Net Assets					
Current investments	\$ 746,871				
Noncurrent investments	2,316,175				
Total investments	<u>\$ 3,063,046</u>				

### Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Library's investment policy does not specifically address interest rate risk. The Library's policy minimizes interest rate risk by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market.

### Credit Risk

Credit risk is the risk that an issuer of or counterparty to an investment will not fulfill its obligations. The Library's investments are limited by those authorized under Public Act 20 of 1943 (as amended) for custodial credit risk. The Library also has the following investment policies further limiting its investment choices:

- All financial institutions used as a depository by the Library must have its principal office or branch in Michigan.
- Corporate bonds shall not exceed 20% of the total portfolio investment. In addition, corporate bonds are required to have the highest rating.
- The brokerage firm is only allowed to invest up to \$95,000 per institution.

Notes to the Basic Financial Statements (continued)

**3. Investments (continued)**

As of December 31, 2007, the credit quality rating of the U.S. Government securities and U.S. Agency securities with a fair value of \$2,060,444 was AAA by Standard and Poors. The mutual funds were unrated. Certificates of deposit are not rated; however, the Library evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

**Custodial Credit Risk**

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Library will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Library does not have a deposit policy for custodial credit risk of investments. The Library's investments in mutual funds, U. S. Governmental securities and U.S. Agency securities are not exposed to custodial credit risk. The Library's certificates of deposit are not rated; however, the Library evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories; the brokerage firm is only allowed to invest up to \$95,000 per institution.

**Concentration of Credit Risk**

Concentration of credit risk is the risk of loss attributed to the magnitude of investment in a single issuer. The Library's policy minimizes concentration of credit risk by requiring diversification of the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. To limit its exposure to concentration of credit risk, the Library's investment policy limits its investment choices; no more than 20% of the total investment portfolio is invested in corporate bonds. Investments in mutual funds, external investment pools and other pooled investments are excluded from concentration of credit risk disclosures.

**Foreign Currency Risk**

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. State law and the Library's policy prohibit investment in foreign currency.

# Rochester Hills Public Library

## Notes to the Basic Financial Statements (continued)

### 4. Capital Assets

A summary of capital asset activity of the Library is as follows:

	Balance 01/01/07	Additions	Disposals	Balance 12/31/2007
Capital assets not being depreciated:				
Land	\$ 3,000,000	\$ -	\$ -	\$ 3,000,000
Capital assets being depreciated:				
Building and improvements	10,173,772	-	-	10,173,772
Furniture and fixtures	258,766	-	-	258,766
Library equipment	1,079,231	36,436	(130,086)	985,581
Bookmobile	205,847	-	-	205,847
Library materials	4,811,226	699,710	(517,269)	4,993,667
Total	16,528,842	736,146	(647,355)	16,617,633
Accumulated depreciation	(7,697,784)	(1,261,166)	646,215	(8,312,735)
Net capital assets being depreciated	8,831,058	(525,020)	(1,140)	8,304,898
Net capital assets	\$ 11,831,058	\$ (525,020)	\$ (1,140)	\$ 11,304,898

Depreciation expense was \$1,261,166 for the year ended December 31, 2007.

On August 15, 1990, the Library and the Rochester Downtown Development Authority (the Authority) came to an agreement by which the Authority consented to give the Library \$2,500,000 for the purpose of helping the Library to acquire the land on which the Library is located. Under this agreement, if at any point in the thirty years following the date of the agreement this land should be sold, then the Library will give back to the Authority, its pro rata share of the appraised value of the land only. The Authority's share of the appraised value has been established as 83.3%. At the current time, the Library has no intention of selling its present facility.

### 5. Long-term Debt

Long-term debt obligation can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Accumulated employee benefits	\$ 187,728	\$ 18,977	\$ 13,509	\$ 193,196	\$ 112,952

The accumulated employee benefits represent the estimated liability to be paid to employees under the Library's sick and vacation pay policy. Under the Library's policy, employees earn sick and vacation time based on time of service with the Library.

## Rochester Hills Public Library

### Notes to the Basic Financial Statements (continued)

#### 6. Assets Held at Community Foundation

There is one endowment fund administered by the Community Foundation of Greater Rochester (CFGR) for the benefit of the Library. The CFGR is a public charity that is funded through donations by a large number of contributors. Although the Library does not control the funds at the CFGR, by agreement, the purpose of the funds is to provide support and furtherance of specific programs and activities of the Rochester Hills Public Library. Accordingly, the Library has not recorded these funds in this financial report. Revenue is recorded when distributions are received from the CFGR.

A summary of changes in assets held at the CFGR is as follows:

Balance - January 1, 2007	\$ 197,895
Contributions	1,805
Distributions	(3,015)
Investment earnings	11,317
Balance - December 31, 2007	<u>\$ 208,002</u>

#### 7. Stewardship, Compliance and Accountability

##### Budgetary Information

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. An annual appropriated budget is adopted for the General Fund. This budget is developed by the Library Director and approved by the Library Board as are any amendments to the budget. All appropriations lapse at fiscal year end. The Library does not maintain a formalized encumbrance accounting system. The amount of encumbrances outstanding at December 31, 2007 has not been calculated. During the current year, the budget was amended in a legally permissible manner.

The Library follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to May 1, Library managers submit budgetary requests for the next fiscal year. The Library Director obtains income information from the City of Rochester Hills and verifies this information with the City treasurer's office.
2. The Library Director presents a draft budget to the Library Board's Finance Committee in June.
3. The proposed budget is presented to the full Board for discussion in July.

## Rochester Hills Public Library

### Notes to the Basic Financial Statements (continued)

#### **7. Stewardship, Compliance and Accountability (continued)**

4. A public hearing is advertised at least ten days before the hearing, which is held in August. The Board adopts a total budget figure, total revenue and expenditure basis, in August by passing a budget resolution. The Library director is authorized to transfer budgeted amounts within budgetary activities. However, any revisions that alter the total expenditures of any budgetary activity must be approved by the Library Board.
5. The Library Director forwards a copy of the budget resolution to the City of Rochester Hills.

#### **Excess Expenditures Over Appropriations In Budgetary Funds**

P.A. 621 of 1978, Section 18(1) as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the supplemental information, the Library's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a fund, functional and line-item basis.

During the year ended December 31, 2007, the Library incurred no expenditures in excess of the amounts appropriated.

#### **8. Designated and Undesignated Donations**

The Library receives donations from the general public that are both designated and undesignated. The undesignated donations are recorded as General Fund revenue as received and expended by the Library as needed. Designated donations are recorded as General Fund revenue as received and spent in a manner consistent with the donors' restrictions. Due to timing differences, it is not always possible to spend these designated donations in the same year they were received. As of December 31, 2007, the Library had unspent designations in the amount of \$3,064.



## Rochester Hills Public Library

### Notes to the Basic Financial Statements (continued)

#### 9. Risk Management

The Library is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters.

The Library carries commercial insurance for risks to cover these losses. The Library also continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

#### 10. Defined Contribution Retirement Plan

The Library provides pension benefits through a money purchase plan, created in accordance with IRC Section 401(a), to all of its salaried employees who have worked in excess of six months. As established by the plan, the Library contributes 10% of gross earnings, which resulted in \$182,154 in 2007. Participants may also make voluntary contributions limited to 100 percent of their annual contribution or \$44,000.

#### 11. Reconciliation of Fund Financial Statements to Government-wide Financial Statements

Total fund balance and the net change in fund balance of the Library's governmental funds differs from net assets and changes in net assets of the governmental activities reported in the statement of net assets and statement of activities. This difference primarily results from the long-term economic focus of the statement of net assets and statement of activities versus the current financial resources focus of the governmental fund balance sheet and statement of revenue, expenditures and change in fund balance. The following are reconciliations of fund balance to net assets and the net change in fund balance to the net change in net assets:

<b>Total Fund Balance – Modified Accrual Basis</b>	\$ 2,854,636
Amounts reported in the statement of net assets are different because:	
Capital assets are not financial resources and are not reported in the funds	11,304,898
Compensated absences are included as a liability	(193,196)
<b>Net Assets of General Fund-Full Accrual Basis</b>	<u><u>\$ 13,966,338</u></u>

Rochester Hills Public Library

Notes to the Basic Financial Statements (continued)

**11. Reconciliation of Fund Financial Statements to Government-wide Financial Statements (continued)**

**Net Change in Fund Balance – Modified Accrual Basis** \$ 206,993

Amounts reported in the statement of activities are different because:

Capital outlays are reported as expenditures in the statement of revenue, expenditures and changes in fund balance; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Capital outlay 736,146

Depreciation (1,261,166)

Loss on disposal of capital assets is not recorded in the fund statements (1,140)

Increase in accrual for long-term compensated absences reported as an expenditure in the statement of activities, but not in the fund statements (5,468)

**Change in Net Assets of General Fund-Full Accrual Basis** \$ (324,635)

## Required Supplemental Information

Rochester Hills Public Library

Budgetary Comparison Schedule

Year Ended December 31, 2007

	General Fund			
	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues:</b>				
Property taxes	\$ 2,785,500	\$ 2,797,297	\$ 2,792,407	\$ (4,890)
Service contracts:				
City of Rochester	506,600	603,567	515,876	(87,691)
Oakland Township	770,200	978,742	780,529	(198,213)
Total service contracts	1,276,800	1,582,309	1,296,405	(285,904)
State aid	65,600	73,008	73,008	-
Fines and fees:				
Penal fines	120,100	139,179	139,179	-
Fines and fees	160,000	207,171	207,308	137
Total fines and fees	280,100	346,350	346,487	137
Investment income	112,400	266,104	259,935	(6,169)
Grants	-	2,645	2,645	-
Gifts				
Designated gifts - General	110,000	127,342	11,317	(116,025)
Designated gifts - Friends	-	-	116,000	116,000
Undesignated gifts - General	30,000	27,000	30,190	3,190
Total gifts	140,000	154,342	157,507	3,165
Miscellaneous	4,000	28,200	26,995	(1,205)
Total revenues	4,664,400	5,250,255	4,955,390	(294,865)

Rochester Hills Public Library

Budgetary Comparison Schedule

Year Ended December 31, 2007

	General Fund			
	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
<b>Expenditures:</b>				
Personnel:				
Salaries and wages	\$ 2,440,600	\$ 2,495,000	\$ 2,472,307	\$ 22,693
Employee benefits	696,400	633,000	635,102	(2,102)
Total personnel	3,137,000	3,128,000	3,107,409	20,591
Library materials:				
Books	404,300	464,000	434,425	29,575
Print subscription and electronic materials	113,000	108,800	115,458	(6,658)
Audiovisual	131,500	148,500	149,827	(1,327)
Total library materials	648,800	721,300	699,710	21,590
Facilities and equipment:				
Equipment and capital improvements	70,600	110,266	110,424	(158)
Equipment maintenance	57,700	69,000	67,279	1,721
Facilities maintenance	142,700	175,500	173,428	2,072
Bookmobile	20,000	17,500	16,843	657
Telephone	43,700	54,000	52,264	1,736
Utilities	217,000	165,500	168,627	(3,127)
Insurance	20,000	27,150	15,603	11,547
Total facilities and equipment	571,700	618,916	604,469	14,447
Professional and contractual services	72,300	81,500	86,737	(5,237)
Library programs	50,400	41,500	38,851	2,649
Other operating expenditures:				
Promotion and printing	76,000	66,000	61,163	4,837
Staff development	26,700	35,500	34,131	1,369
Supplies	58,000	76,800	81,714	(4,914)
Mileage	8,000	8,500	8,671	(171)
Computer software	5,000	1,000	955	45
Gift and Grant Expense	-	8,716	8,744	(28)
Miscellaneous	10,500	15,000	15,842	(842)
Total other operating expenditures	184,200	211,516	211,220	296
Total expenditures	4,664,400	4,802,732	4,748,396	54,336
<b>Excess (deficiency) of revenues over expenditures</b>	-	447,523	206,993	(240,530)
<b>Fund balance - beginning of year</b>	2,647,643	2,647,643	2,647,643	-
<b>Fund balance - end of year</b>	\$ 2,647,643	\$ 3,095,166	\$ 2,854,636	\$ (240,530)

**Rochester Hills Public Library**  
**REPORT TO THE BOARD OF TRUSTEES**  
**February 28, 2008**

**Andrews Hooper & Pavlik P.L.C.**  
**Certified Public Accountants**  
**3201 University Drive, Suite 350**  
**Auburn Hills, Michigan 48326**



ANDREWS HOOPER & PAVLIK P.L.C.  
Certified Public Accountants

February 28, 2008

Board of Trustees  
Rochester Hills Public Library  
500 Olde Towne Road  
Rochester, MI 48307

In planning and performing our audit of the financial statements of Rochester Hills Public Library as of and for the year ended December 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered Rochester Hills Public Library's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Library's internal control. Accordingly, we do not express an opinion on the effectiveness of the Library's internal control.

However, during our audit, we became aware of the certain matters that are opportunities for strengthening internal control and operating efficiency. These matters are included within this letter.

**Journal Entry Approval**

The Library does not require a responsible official who is not involved in the preparation of the journal entries to approve journal entries that are not standard. We recommend that the Library designate a responsible employee or board member to approve journal entries that are not standard.

**Disaster Recovery Plan**

A disaster recovery plan outlines the steps to take in the event of a disaster. We noted during our audit that the Library does not currently have a documented disaster recovery plan. We recommend management document and test a disaster recovery plan to ensure the Library can continue to operate in the event of a disaster.

We would be pleased to discuss these matters in further detail at your convenience, to perform any study of these matters, or to assist you in implementing the recommendations.

This communication is intended solely for the information and use of Management, the Board of Trustees, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

*Andrews Hooper & Pavlik P.L.C.*